

# Deepening

The Monthly eNewsletter of

DFID's Financial Sector Deepening Project in Uganda

FSDU

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Dear Friends and Colleagues,

Welcome to this issue of *Deepening*, the email newsletter of DFID's Financial Sector Deepening Project in Uganda - FSDU.

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This issue features an announcement of the Third African Microfinance Conference and some surprising findings from the baseline survey for consumer education. It also gives brief updates on the Tier 4 Census, FSDU's Annual Public Programme Presentation, our Linkage Banking initiative, training SACCOs with group-building tools, VSLAs, and climate change and microfinance.

## Third African Microfinance Conference

On the 20th to 23rd of August 2007, Uganda's Ministry of Finance, Planning and Economic Development is hosting the Third African Microfinance Conference: New Options for Rural and Urban Africa. The conference will have six sub-themes: Segmentation, Client Costs and Risks, Financial Institution Costs and Risks, Value Chain Analysis and Financing, Innovations, and the Contribution of the Public Sector. We have been planning this for a long time, and held back from announcing it until all the key players could agree on the dates.

I've had the privilege to be on the programme committee for this conference. We are planning a remarkable series of presenters, who will, I hope, take the conference a bit beyond run of the mill conference content. Most of the readers of this newsletter will be receiving announcements through other mailing lists, so I won't burden your in-box, except as news about the conference seems to be particularly relevant. Please, now, mark your calendar for this, and plan to come.

## Consumer Education, and Baseline Survey

Our partners Straight Talk Foundation/Communication for Development Foundation, and AMFIU, are all moving ahead with the national roll-out of consumer education.

Two days ago I attended most of a workshop of participants in the Financial Literacy training of trainers offered in November 2006 by Microfinance Opportunities on behalf of AMFIU. Some of the participants had used the modules, particularly Savings and Debt Management, to train consumers. Others had adapted the themes of the modules into other media, including a radio show promoting savings. Still others were struggling within their organizations or with clients to convince them that there was either social value or a business opportunity in training Ugandans to manage their money better. In all cases, there was a clear understanding, and for many a burning commitment, to the idea that a little bit of training would vastly amplify the value of the financial services, particularly credit, that are offered to Ugandan consumers. I appreciated AMFIU's professionalism in the organization of the workshop, and the spirit of the participants, and trust that these strengths will soon start manifesting themselves as large numbers of people trained.

To help refine consumer education messages, and to provide baseline information against which progress will be measured, FSDFU commissioned a study of 1070 consumers in Bushenyi, Mukono, Kumi and Lira Districts. The survey provided the most accurate information yet available about the knowledge, attitudes and practices of microfinance consumers. In many areas, results were encouraging. For example, most borrowers receive, read and understand contracts. In some areas, however, there were surprises:

- Only half of the SACCO members (53%) knew that the members are the owners of their SACCO.
- Similarly, only 30% said that SACCO members that have ultimate authority in their SACCO.

It is difficult to understand what exactly has gone wrong here, and how such results are possible. The sorry state of comprehension among SACCO members of the nature of a cooperative institution inspires us to work harder for the creation of a Capacity Building Coordination mechanism, discussed at length in the previous newsletter, and briefly later in this edition.

The survey not surprisingly reaffirmed that Ugandans do have a strong savings preference, but do not have a corresponding number of savings accounts: 45% of respondents said that it is important to have a place for both saving and borrowing, 39% said that it is important to have a place where they can save while 16% reported that it is important for them to have a place where they can borrow.

However, despite the savings preference, only 23% of the respondents were currently operating a savings account.

It is very important, I believe, to know why that number is so low. Is it simply lack of access to secure, liquid and affordable savings, or are there other factors? Do people perceive SACCOs as safe and affordable, and in fact are they safe and affordable?

## Linkages

We are working with two financial institutions, Centenary Rural Development Bank (Central Uganda), and PostBank Uganda (in the North), to help them study linkage-banking prospects, and develop strategies for linkages with Tier 4 (unregulated) institutions. Centenary will be working with Aikan Ltd and PostBank will be working with Deloitte & Touche.

Under an earlier procurement, FSDU agreed to supply two mobile banking vans to PostBank Uganda for a pilot project in Eastern Uganda. These have been ordered, and implementation will begin as soon as the vans arrive, no later than March.

FOCCAS, one of our original linkage prospects, has been in receivership since July 2006 for failing to meet its obligations towards commercial lenders. We continue to think that there are important lessons to be learned from this case, in which an MFI that had received a D rating in 2003 from an international rating firm nonetheless subsequently received loans from commercial banks, partially guaranteed by social lenders, without any evidence that their performance had improved significantly.

## Transformation Steering Committee

The Transformation Steering Committee remains an example of donor coordination at its best. All the donors in Uganda who support transformation have agreed to coordinate their activities, and one of them has supplied a part time consultant to carry out the substantial administrative work of the committee. Since the creation of the TSC, four Ugandan MFIs gained their licenses from the Bank of Ugandan as Microfinance Deposit Taking Institutions, and a fifth is well on the way.

Now, however, the number of donors channeling funds to transformation is likely to decrease substantially, and the institutions that consider themselves transformation prospects are perhaps not yet ready to absorb significant funding. Some of us think it is time to wind up the committee, despite its success. Whether or not it winds up its operations, we believe that it is opportune to carry out an objective retrospective look at the Ugandan transformation experience. We are drafting terms of reference for a study of the effects of the Ugandan MFI law on the various stakeholders: the MDIs themselves; other financial institutions; regulators; donors; and consumers. We will soon circulate this draft, and discuss it at the next TSC meeting, on 14th February.

FSDU's Transformation and Consolidation Consultant conducted a benchmarking exercise for the four MDIs, comparing their financial and outreach results to each other and to international norms. The exercise was loudly applauded by some of the MDIs, and we see this as a step towards the creation of an eventual MDI Roundtable.

## Tier 4 Census and Missing SACCOs Study

The Census of Tier 4 institutions is complete, and FSDU is discussing the best way to release the information with the Ministry of Finance. At the same time, FSDU and AMFIU are carrying out a follow-up study to the Census to find out what has happened to the “missing SACCOs”, that is, the SACCOs that were on the list given to us by the Registrar of Cooperatives and other sources, that we looked for in the field but did not find.

It is too easy to explain the gap of about 600 SACCOs between the listed SACCOs and the SACCOs we found as simply a case of massive SACCO failure. In fact, the situation is almost certainly much more complex. Perhaps the SACCOs never really existed, or still exist but have no fixed location. Perhaps there were errors in the listing, or perhaps – unlikely – the field researchers simply failed to find all the SACCOs. We received two credible bids to carry out the Missing SACCOs study, and have moved to a Best and Final Offer round of bids, which we expect will lead soon to a contract to carry out the field research. At the same time, AMFIU is profiting from the study to help track down a number of former AMFIU members with which it has lost contact.

## Annual Public Programme Presentation

On 30 January, we held our third annual public programme presentation, at which we reviewed FSDU’s activities for the year just past, and our workplan for the following year. The thirty participants from a variety of donor, government and commercial financial agencies made useful comments, which we take seriously and which will influence our activities.

We are grateful to Adrian Stone of DFID, who urged us to do this the first time after stakeholder remarks revealed quite a bit of mystery about what FSDU is and does. Having done this exercise three times, we have enough perspective to recommend this practice to other programmes.

## Coordination of Capacity Building

We have continued to advance the ideas that FSDU and KRONOS Consultants developed to coordinate capacity building, particularly of SACCOs. The need for this coordination was made even more clear by the results of the baseline survey on consumer education, reported above. FSDU are delighted to be supporting the Microfinance Outreach Plan, which is working to implement some of these ideas. Reminder that the scheme we proposed for the coordination of capacity building consists of these elements:

1. Creation of an industry consensus on the Minimum Acceptable Standards for a SACCO.

2. Agreement of Non-negotiable Precedents for Assistance, beginning with an informed membership committed to capitalizing the SACCO through saving, and a transparent competent Board.
3. Stakeholder agreement to use standardized assessment tools.
4. Comparison of the Minimum Acceptable Standards and the individual SACCO assessments to produce a gap analysis of each SACCO
5. Development of an assistance plan for each SACCO efficiently targeting the identified gaps and sequencing interventions
6. Negotiation of assistance contracts with assisted SACCOs
7. Use of existing assistance providers to give training and TA to fill those gaps
8. Rigorous assessment of the performance of assisted SACCOs and of the efficacy of service providers.

I hope there will be more to report on this important piece of the Tier 4 puzzle by the next issue.

## FinScope Uganda

Last month I wrote, *“Provided there are no serious problems at any of these three steps [data cleaning, weighting, and validation], we will soon be able to release information from the study. The raw data were fascinating.”* In fact, I report with a sigh, there has been a significant glitch in the weighting of the data, which means multiplying each respondent’s responses by a multiplicand furnished by the Uganda Bureau of Statistics, so that the importance of each enumeration area is increased or decreased to reflect its size relative to the population as a whole.

The weighted data continue to be promised “tomorrow” or “soon”. Despite numerous enquiries, I continue to find the explanations opaque of why this seemingly mechanical process has taken so long. Is the problem with me, or is it with the explanations? Find out next issue.

## VSLAs

VSLA outreach continues to expand. CARE reports about 45,000 members in the agencies it supports under their central SUSTAIN mechanism. In addition, there are likely another 15,000 members supported by other agencies.

In an engaging public breakfast presentation hosted by FSDU on 23rd February, Hugh Allen presented the rationale for VSLAs to thirty guests from the donor and implementer agencies. He pointed out that these 60,000 members make Uganda the fourth most important country in terms of numbers of members of improved ASCAs,

behind only India, Niger and Zimbabwe. Uganda is almost certain to pass Zimbabwe this year. Oh, enough of that. Counting, comparing and boasting about membership numbers is distastefully reminiscent of the recurring question asked to MFIs: “How many clients have you got?” I won’t do it any more.

Hugh is coming back in February to provide some direct assistance to UWESO, an independent large VSLA implementer, which has gone from a standing start to some 12,000 members in about four months, with very little outside assistance. They have done a remarkable job, but understandably have some glitches, which Hugh will work to iron out during his two-week mission.

In the face of so much success, it is almost a relief to have these two interesting challenges to occupy us over the next few months:

First, we must continue to make sure that everyone understands where VSLAs fit in the financial system, and how they complement other sorts of delivery mechanism. Some people have questioned whether there is a conflict between VSLAs and SACCOs. There is not, and I was gratified to hear echoes from the field today, from Busia District, that most Sub-County Chiefs, District Cooperative Officers, and District Chief Administrative Officers, are supportive of the work with VSLAs. These are the people in charge of creating SACCOs, and they report that people learn cooperative principles in VSLAs, and that many of them come over and join a SACCO also, without quitting their village group. This is understandable behaviour, and I have often pointed out that I conduct a variety of financial transactions with a variety of financial institutions all of which I have accounts with; poor people are likely to do no less.

Second, we think it is appropriate to experiment with some of the new innovations in VSLA structure and procedures. Hugh Allen developed the administrative system that most VSLAs are now using, but he himself has since disowned it, arguing instead for less complex administration eschewing the use of journals, and also for the use of boxes that permit daily, variable savings amounts. His innovations are *a priori* interesting enough to merit a test here.

## Group Empowerment Tools

FSDU signed a contract with Uganda Cooperative Alliance to fund them to train 12,000 members from 60 SACCOs in Group Empowerment Tools. Members will be trained in “How to Elect Good Leaders”, “Responsibilities and Qualities of SACCO officers”, “Rules for giving loans to Members”, and “Portfolio and Default Management”. We believe that these tools will enable members to elect the right officials and hold them accountable, and help to address the burning issue of member education.

## Climate Change and Microfinance

In January, I participated in Al Gore's Climate Change training in Nashville, in the US. The former Vice President is training hundreds of volunteers to lead the presentation on which his film *An Inconvenient Truth* is based. Climate change and efforts to lessen its impact and mitigate its effects will, I believe, be the defining issue of this century, and will touch all aspects of our lives. I am talking with some friends who work in microfinance, some of whom also attended Mr Gore's training, about the implication of climate change for microfinance. This is a new area, and I feel very lucky to have some exceptionally able, committed, articulate and experienced people to work with in this area. If you share this concern, and would like to be involved in some way at studying this issue and being part of the solution, please send me a mail.

With best wishes,

Paul Rippey

Manager

FSDU